

**HOUGHTON TOWNSHIP, MICHIGAN**  
*(Keweenaw)*  
**FINANCIAL REPORT**

Year Ended March 31, 2004

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>Houghton Township</b>	County <b>Keweenaw</b>
Audit Date <b>3/31/04</b>	Opinion Date <b>5/28/04</b>	Date Accountant Report Submitted to State: <b>6/28/04</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

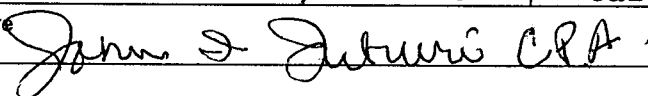
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) <b>John I. Jukuri, CPA</b>			
Street Address <b>56730 Calumet Ave., Suite J</b>	City <b>Calumet</b>	State <b>MI</b>	ZIP <b>49913</b>
Accountant Signature 			

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**INDEPENDENT AUDITOR'S REPORT**

Board Members  
Houghton Township, Michigan

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of Houghton Township, Michigan, as of and for the year ended March 31, 2004, which collectively comprise the basic financial statements of the Township's primary government. These financial statements are the responsibility of Houghton Township's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As discussed in Note 1D to the financial statements, management has not recorded certain capital assets in its governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those capital assets be capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities. The amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

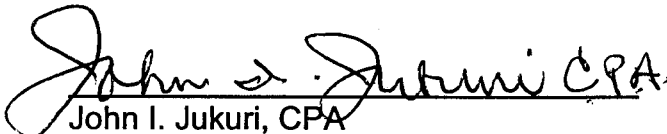
In my opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of Houghton Township, Michigan as of March 31, 2004, and the changes in financial position thereof for the year then ended.

In addition, in my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of Houghton Township, Michigan, as of March 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1B, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of March 31, 2004.

The management's discussion and analysis and budgetary comparison information on pages 5 through 7 and 23 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Houghton Township, Michigan's basic financial statements. The introductory section and combining and individual non-major fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.

  
John I. Jukuri, CPA

Calumet, Michigan  
May 28, 2004

## HOUGHTON TOWNSHIP

HC 1, Box 629  
Eagle River, MI 49950

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### MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Houghton Township, Michigan's financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2004. Please read it in conjunction with the Township's financial statements that follow.

#### USING THIS ANNUAL REPORT

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34. GASB Statement No. 34 implements a new model of financial reporting for state and local governments designed to enhance the usefulness of the Township's annual report. While Houghton Township was not required to implement the provisions of GASB Statement 34 until the year ending March 31, 2005, Township management has elected to early implement the new model financial statement format and content.

#### Report Components

This annual report consists of five parts as follows:

**Government-wide Financial Statements:** The Statement of Net Assets and the Statement of Activities provide information about the activities of the Township government-wide (or "as a whole") and present a longer-term view of the Township's finances.

**Fund Financial Statements:** Fund financial statements focus on the individual parts of the Township government. Fund financial statements also report the Township's operations in more detail than the government-wide statements by providing information about the Township's most significant ("major") funds. For *governmental activities*, these statements tell how these services were financed in the short term as well as what remains for future spending. For *proprietary activities*, these statements offer short-term and long-term financial information about the activities the Township operates like businesses, such as the water service.

**Notes to Financial Statements:** The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**Required Supplementary Information:** This Management Discussion and Analysis and the General Fund Budgetary Comparison Schedule represent financial information required to be presented by the GASB. Such information provides users of this report with additional data that supplements the government-wide statements, fund financial statements, and notes (referred to as "the basic financial statements").

**Other Supplementary Information:** This part of the annual report includes optional financial information such as combining statements for non-major funds, which are added together and shown in the fund financial statements in a single column. This other supplemental financial information is provided to address certain specific needs of various users of the Township's annual report.

*The Township as a Whole*

The Township's combined net assets increased 2% from a year ago - increasing \$69,750 to \$71,246. Most of the increase is attributed to the Township's governmental activities. The business-type activities remained relatively constant. Since this is the first year that financial information has been reported under the new financial model, comparative information is not available. The table below provides a summary of the Township's net assets as of March 31, 2004.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current assets	\$ 67,150	\$ 4,115	\$ 71,265
Noncurrent assets		12,103	12,103
Total Assets	<u>67,150</u>	<u>16,218</u>	<u>83,368</u>
Current liabilities	(974)	(442)	(1,416)
Other liabilities	<u>(10,706)</u>		<u>(10,706)</u>
Total Liabilities	<u>(11,680)</u>	<u>(442)</u>	<u>(12,122)</u>
Net Assets			
Invested in Capital Assets--Net of Debt		12,103	12,103
Unrestricted (Deficit)	<u>55,470</u>	<u>3,673</u>	<u>59,143</u>
Total Net Assets	<u>\$ 55,470</u> =====	<u>\$ 15,776</u> =====	<u>\$ 71,246</u> =====

The current level of unrestricted net assets for our governmental activities stands at \$55,470 or about 103% of expenditures.

The following table shows the change in the net assets as of the current date:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Program Revenues			
Charges for services	\$ 1,400	\$ 10,198	\$ 11,598
Operating grants and contributions	8,312		8,312
General Revenues			
Property taxes	33,531		33,531
State-shared revenues	9,801		9,801
Unrestricted investment earnings	<u>2,208</u>	<u>13</u>	<u>2,221</u>
Total Revenues	<u>55,252</u>	<u>10,211</u>	<u>65,463</u>

Program Expenses			
General Government	17,190		17,190
Public Safety	4,102		4,102
Public Works	7,664		7,664
Recreation and Culture	21,302		21,302
Other	3,688		3,688
Water		10,021	10,021
	<u>53,946</u>	<u>10,021</u>	<u>63,967</u>
Total Expenses			
	<u>53,946</u>	<u>10,021</u>	<u>63,967</u>
Changes in Net Assets	\$ 1,306	\$ 190	\$ 1,496
	<u>=====</u>	<u>=====</u>	<u>=====</u>

### Governmental Activities

The Township's total governmental expenditures exceeded revenues by \$1,306. This was primarily due to the purchase of land.

During the year, the Township purchased 16 beach front lots in conjunction with Keweenaw County and the Keweenaw County Road Commission for \$55,000. The Township's share was \$20,000.

### Business-Type Activities

The Township's business-type activities consists of the Water Fund. We provide water to approximately 59 Township residents, which comes from a well. The water revenues exceeded its expenses by \$190.

### The Township's Funds

Our analysis of the Township's major fund follows the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The Township's major fund for March 31, 2004 includes only the General Fund.

The General Fund pays for most of the Township's governmental services. The most significant are for general government activities and public works, which incurred expenses of approximately \$20,882 during the year.

### General Fund Budgetary Highlights

Over the course of the year, the Township Board amended the budget to take into account events during the year. The most significant change was to increase capital outlay expenditures by \$26,000. Township departments overall stayed below budget, resulting in total expenditures of \$35,409 below budget.

### Contacting the Township's Management

This financial report is intended to provide a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.



# HOUGHTON TOWNSHIP, MICHIGAN

## Government Wide Statement of Net Assets March 31, 2004

	Primary Government		
	Government	Business-Type	Total
	Activities	Activities	
<b>ASSETS</b>			
Cash	\$ 25,628	\$ 2,304	\$ 27,932
Investments	21,754		21,754
Receivables, net	3,643	1,811	5,454
Receivables from other governments	16,125		16,125
Capital assets, net		12,103	12,103
Total Assets	<u>67,150</u>	<u>16,218</u>	<u>83,368</u>
<b>LIABILITIES</b>			
Accounts payable	575	339	914
Accrued liabilities	399	103	502
Noncurrent liabilities			
Due within one year	5,000		5,000
Due in more than one year	<u>5,706</u>		<u>5,706</u>
Total Liabilities	<u>11,680</u>	<u>442</u>	<u>12,122</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt		12,103	12,103
Unrestricted	<u>55,470</u>	<u>3,673</u>	<u>59,143</u>
Total Net Assets	<u>\$ 55,470</u> =====	<u>\$ 15,776</u> =====	<u>\$ 71,246</u> =====

The accompanying notes are an integral part of the financial statements.

# HOUGHTON TOWNSHIP, MICHIGAN

## Government Wide Statement of Activities Year Ended March 31, 2004

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Primary Government		Total
				Governmental Activities	Business-Type Activities	
<b>Primary Government</b>						
General Government	\$ 17,190	\$ 1,400	\$ 8,312	\$ (7,478)	\$	\$ (7,478)
Public Safety	4,102			(4,102)		(4,102)
Public Works	7,664			(7,664)		(7,664)
Recreation & Culture	21,302			(21,302)		(21,302)
Other	3,688			(3,688)		(3,688)
Total Governmental Activities	53,946	1,400	8,312	(44,234)		(44,234)
<b>Business-Type Activities</b>						
Water	10,021	10,198			177	177
Total Primary Government	\$ 63,967	\$ 11,598	\$ 8,312	(44,234)	177	(44,057)
	=====	=====	=====			
<b>General Revenues</b>						
Property taxes				33,531		33,531
State-shared revenues				9,801		9,801
Unrestricted investment earnings				2,208	13	2,221
Total General Revenues				45,540	13	45,553
Changes in Net Assets				1,306	190	1,496
Net Assets - Beginning				54,164	15,586	69,750
Net Assets - Ending				\$ 55,470	\$ 15,776	\$ 71,246
				=====	=====	=====

The accompanying notes are an integral part of the financial statements.

# HOUGHTON TOWNSHIP, MICHIGAN

## Governmental Fund Balance Sheet March 31, 2004

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash	\$ 22,972	\$ 2,656	\$ 25,628
Investments	21,754		21,754
Receivables - net	3,643		3,643
Receivables from other governments	<u>16,125</u>	<u></u>	<u>16,125</u>
Total Assets	<u>64,494</u>	<u>2,656</u>	<u>67,150</u>
<b>LIABILITIES</b>			
Accounts payable	575		575
Accrued liabilities	399		399
Deferred revenue	<u>3,104</u>	<u></u>	<u>3,104</u>
Total Liabilities	4,078		<u>4,078</u>
<b>FUND BALANCES</b>			
Unreserved	<u>60,416</u>	<u>2,656</u>	63,072
<b>TOTAL LIABILITIES &amp; FUND BALANCES</b>	<u>\$ 64,494</u> =====	<u>\$ 2,656</u> =====	

### Reconciliation to Statement of Net Assets:

Amounts reported for governmental activities in the statement of net assets are different because:

Taxes receivable not available to pay for current expenditures	3,104
Long-term liabilities are not due and payable in the current period and are not reported in the funds	<u>(10,706)</u>
Net Assets of Governmental Activities	<u>\$ 55,470</u> =====

The accompanying notes are an integral part of the financial statements.

# HOUGHTON TOWNSHIP, MICHIGAN

## Governmental Fund Statement of Revenue, Expenditures, and Changes in Fund Balance Year Ended March 31, 2004

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Taxes and penalties	\$ 30,427	\$	\$ 30,427
State aid	8,316	1,485	9,801
Charges for services		1,400	1,400
Interest and rentals	2,194	14	2,208
Other revenues	<u>8,312</u>		<u>8,312</u>
Total Revenues	<u>49,249</u>	<u>2,899</u>	<u>52,148</u>
<b>Expenditures</b>			
Current			
General government	16,117		16,117
Public safety	2,500	1,602	4,102
Public works	4,765		4,765
Recreation and culture	1,235		1,235
Other	3,688	1,073	4,761
Capital outlay	22,966		22,966
Debt service	<u>5,000</u>		<u>5,000</u>
Total Expenditures	<u>56,271</u>	<u>2,675</u>	<u>58,946</u>
<b>Excess of Revenues over (under) Expenditures</b>	(7,022)	224	(6,798)
Fund Balance - April 1, 2003	<u>67,438</u>	<u>2,432</u>	
FUND BALANCE - MARCH 31, 2004	\$ 60,416 =====	\$ 2,656 =====	
Reconciliation to the Statement of Activities:			
Amounts reported for governmental activities in the statement of activities are different because:			
Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds.			3,104
Repayments of contracts payable is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).			<u>5,000</u>
<b>Changes in Net Assets of Governmental Activities</b>			\$ 1,306 =====

The accompanying notes are an integral part of the financial statements.

HOUGHTON TOWNSHIP, MICHIGAN

Proprietary Fund Statement of Net Assets  
March 31, 2004

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	<u>Water Fund</u>
<b>ASSETS</b>	
Current Assets	
Cash	\$ 2,304
Receivables, net	<u>1,811</u>
Total Current Assets	4,115
Noncurrent Assets	
Capital assets, net of accumulated depreciation	<u>12,103</u>
Total Assets	\$ 16,218 =====
<b>LIABILITIES</b>	
Current Liabilities	
Accounts payable	\$ 339
Accrued liabilities	<u>103</u>
Total Current Liabilities	<u>442</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	12,103
Unrestricted	<u>3,673</u>
Total Net Assets	\$ 15,776 =====

The accompanying notes are an integral part of the financial statements.

# HOUGHTON TOWNSHIP, MICHIGAN

## Proprietary Fund Statement of Revenue, Expenses and Changes in Net Assets Year Ended March 31, 2004

	<u>Water Fund</u>
Operating Revenues	
Water sales	<u>\$ 10,198</u>
Operating Expenses	
Personal services	2,906
Utilities	1,903
Repairs and maintenance	2,077
Other expenses	896
Depreciation	<u>2,049</u>
Total Operating Expenses	<u>9,831</u>
Operating Income	<u>367</u>
Nonoperating Revenues (Expenses)	
Interest revenue	13
Interest expense	<u>(190)</u>
Total Nonoperating Revenue (Expense)	<u>(177)</u>
Changes in Net Assets	190
Net Assets, Beginning	<u>15,586</u>
Net Assets, Ending	<u>\$ 15,776</u> <u>=====</u>

The accompanying notes are an integral part of the financial statements.

HOUGHTON TOWNSHIP, MICHIGAN

Proprietary Fund Statement of Cash Flows  
Year Ended March 31, 2004

	<u>Water Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 10,176
Payments to suppliers	(4,325)
Payments to employees	<u>(2,906)</u>
Net Cash Provided by Operating Activities	2,945
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Principal and interest paid on capital debt	(803)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest	<u>13</u>
Net Increase in Cash and Cash Equivalents	2,155
Balances - Beginning of the Year	<u>149</u>
Balances - End of the Year	\$ 2,304 =====
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
Operating Income	\$ 367
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	2,049
Change in Assets and Liabilities	
Receivables, net	296
Accounts payable	<u>233</u>
Net Cash Provided by Operating Activities	\$ 2,945 =====

The accompanying notes are an integral part of the financial statements.

**HOUGHTON TOWNSHIP, MICHIGAN**

**Fiduciary Funds - Statement of Net Assets**  
**March 31, 2004**

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	Agency Fund Type (Property Tax Collection Fund)
<b>ASSETS</b>	
Cash	\$ 28,141 =====
<b>LIABILITIES</b>	
Due to other governmental units	\$ 28,141 =====

The accompanying notes are an integral part of the financial statements.



# HOUGHTON TOWNSHIP, MICHIGAN

## Notes to Financial Statements March 31, 2004

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### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Houghton Township, Michigan conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township.

#### A. Reporting Entity

The Township is located in Keweenaw County and covers an area of approximately 36 square miles. The Township is governed by an elected five member board. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable in accordance with generally accepted accounting principles and Government Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity". The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The Township has no component units.

#### B. Government-Wide and Fund Financial Statements

##### Implementation of GASB Statement 34

The aspects of financial statement content and format, as prescribed by GASB Statement 34, have been implemented in the financial statements, effective for the year ended March 31, 2004. The Township was not required to, but elected to, early implement this new pronouncement.

The primary changes from the prior years' financial presentations include:

- The addition of a Management Discussion and Analysis as required supplementary information.
- A new format for the Township's basic financial statements including a government-wide Statement of Net Assets and Statement of Activities, in addition to fund financial statements, with emphasis on major funds, for governmental and proprietary activities.
- The reporting of budget and actual information for the General Fund in a new format as required supplementary information.
- Beginning net assets reported in government-wide financial statements will differ from the amounts reported as ending fund equity in the prior year financial statements due to this implementation.
- The change to the direct method of reporting cash flows from operations in the proprietary fund financial statements.

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Township. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

### **C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. When applicable, grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, when applicable, debt service expenditures and claims and judgments are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The government reports the following major governmental fund:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state aid. The fund includes the general operating expenditures of the Township.

The government reports the following major proprietary fund:

The Water Fund accounts for the activities of the water distribution system.

Additionally, the government reports the following fund type:

Special revenue funds account for the proceeds of the specific revenue sources that are either legally restricted to expenditures for specified purposes or designated to finance particular functions or activities of the Township. This fund type includes the Cemetery and Liquor Funds.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include, when applicable: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary fund relates to charges to customers for sales and services. The water fund also recognizes the portion of fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. When applicable, the portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **D. Assets, Liabilities, and Net Assets or Equity**

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value, which approximates market, and consists of certificates of deposit only.

Receivables and Payables - When applicable, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on February 14<sup>th</sup> of the following year, at which time penalties and interest are assessed.

Capital Assets - Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) should be reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets should be recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets should be recorded at estimated fair market value at the date of donation. However, the Township has not accounted for its capital assets in its governmental funds and therefore, are not reported in the government wide statements.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, there was no interest expense that was capitalized as part of the cost of assets under construction.

Property, plant and equipment is depreciated using the straight-line method over the estimated useful lives of 7 to 40 years.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the period. Actual results could differ from those estimated.

Long-Term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

## **(2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the activity level.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Township incurred expenditures in excess of the amounts appropriated in the Liquor Fund by \$107.

## **(3) DEPOSITS AND INVESTMENTS**

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Township Board has designated one bank for the deposit of Township funds. The investment policy adopted by the board is in accordance with Public Act 196 of 1997. The Township's deposits and investment policy are in accordance with statutory authority.

At year-end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash (checking and savings accounts)	\$ 25,628	\$ 2,304	\$ 28,141	\$ 56,073
Investments (certificates of deposit exceeding 3 months in maturity)	<u>21,754</u>	<u>          </u>	<u>          </u>	<u>21,754</u>
Total	<u>\$ 47,382</u> =====	<u>\$ 2,304</u> =====	<u>\$ 28,141</u> =====	<u>\$ 77,827</u> =====

The bank balance of the primary government's deposits is \$79,974, all of which is covered by federal depository insurance.

#### (4) RECEIVABLES

Receivables as of year-end for the government's individual major and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Water Fund</u>	<u>Total</u>
Taxes receivable	\$ 3,467	\$	\$ 3,467
Accounts		2,701	2,701
Interest	176		176
Less: Allowance for Uncollectibles	<u>          </u>	<u>(890)</u>	<u>(890)</u>
Net receivables	<u>\$ 3,643</u> =====	<u>\$ 1,811</u> =====	<u>\$ 5,454</u> =====

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the deferred revenue consisted entirely of delinquent property taxes.

#### (5) CAPITAL ASSETS

Capital asset activity of the primary government presented in the financial statements for the current year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Being Depreciated				
Buildings	\$ 8,460	\$	\$	\$ 8,460
Machinery and equipment	<u>12,865</u>	<u>          </u>	<u>          </u>	<u>12,865</u>
Subtotal	<u>21,325</u>	<u>          </u>	<u>          </u>	<u>21,325</u>
Accumulated depreciation for				
Buildings	(740)	(212)		(952)
Machinery and equipment	<u>(6,433)</u>	<u>(1,837)</u>	<u>          </u>	<u>(8,270)</u>
Subtotal	<u>(7,173)</u>	<u>(2,049)</u>	<u>          </u>	<u>(9,222)</u>
Net Capital Assets Being Depreciated	<u>\$ 14,152</u> =====	<u>\$ (2,049)</u> =====	<u>\$</u> =====	<u>\$ 12,103</u> =====

Capital costs of \$22,966 have been included as expenses in the Government Wide Statement of Activities which is not in accordance with generally accepted accounting principles.

#### **(6) PROPERTY TAXES**

The Township property taxes are levied on each December 1<sup>st</sup> on the taxable valuation of property (as defined by State statutes) located in the Township as of the preceding December 31<sup>st</sup>. Property taxes are due and payable on or before February 14<sup>th</sup> of the following year.

Although the Township 2003 ad valorem tax is levied and collectible on December 1, 2003, it is the Township's policy to recognize revenue from the current tax levy in the subsequent year or the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2003 taxable valuation of the Township totaled \$5,779,114, on which ad valorem taxes levied consisted of 1.2925 mills for Township operating purposes, and 2.8125 mills of extra voted raising \$7,468 and \$16,252, respectively. These amounts are recognized in the General Fund financial statements as taxes receivable or as tax revenue.

#### **(7) RISK MANAGEMENT**

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation). The Township has purchased commercial insurance for these risks. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**Required Supplementary Information**

# HOUGHTON TOWNSHIP, MICHIGAN

## Budgetary Comparison Schedule General Fund Year Ended March 31, 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
Beginning of Year Fund Balance	\$ 67,438	\$ 67,438	\$ 67,438	\$
Resources (Inflows)				
Taxes and penalties	28,820	28,820	30,427	1,607
State aid	9,100	9,100	8,316	(784)
Interest and rents	350	350	2,194	1,844
Other revenue	<u>800</u>	<u>800</u>	<u>8,312</u>	<u>7,512</u>
Amounts Available for Appropriation	<u>106,508</u>	<u>106,508</u>	<u>116,687</u>	<u>10,179</u>
Charges to Appropriation (Outflows)				
General Government				
Township board	4,740	4,740	1,241	3,499
Supervisor	3,430	3,430	3,070	360
Elections	300	300		300
Assessor	2,095	2,595	2,735	(140)
Clerk	3,430	3,430	3,211	219
Board of review	805	805	805	
Treasurer	3,830	3,830	3,136	694
Town hall	10,000	10,000	1,919	8,081
Public Safety				
Fire	2,500	2,500	2,500	
Public Works				
Street lighting	3,000	3,000	4,082	(1,082)
Sanitation	1,000	2,700	683	2,017
Recreation and culture	1,500	1,500	1,235	265
Other	4,850	4,850	3,688	1,162
Capital outlay	12,000	38,000	22,966	15,034
Debt service	<u>10,000</u>	<u>10,000</u>	<u>5,000</u>	<u>5,000</u>
Total Charges to Appropriations	<u>63,480</u>	<u>91,680</u>	<u>56,271</u>	<u>35,409</u>
Budgetary Fund Balance - March 31, 2004	<u>\$ 43,028</u>	<u>\$ 14,828</u>	<u>\$ 60,416</u>	<u>\$ 45,588</u>



## **Other Supplementary Information**

# HOUGHTON TOWNSHIP, MICHIGAN

## Combining Balance Sheet Non-Major Governmental Funds March 31, 2004

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	<u>Special Revenue Funds</u>		<u>Total</u>
	<u>Cemetery</u>	<u>Liquor</u>	<u>Non-Major</u>
	<u>Fund</u>	<u>Fund</u>	<u>Governmental</u>
			<u>Funds</u>
Assets			
Cash	\$ 1,916	\$ 740	\$ 2,656
	=====	=====	=====
Liabilities and Fund Equity			
Liabilities			
Fund Balance			
Unreserved	\$ 1,916	\$ 740	\$ 2,656
	=====	=====	=====

# HOUGHTON TOWNSHIP, MICHIGAN

## Combining Statement of Revenues, Expenditures and Changes in Fund Balance Non-Major Governmental Funds For the Year Ended March 31, 2004

	<u>Special Revenue Funds</u>		Total Non-Major Governmental Funds
	<u>Cemetery Fund</u>	<u>Liquor Fund</u>	
<b>Revenues</b>			
State aid	\$	\$ 1,485	\$ 1,485
Charges for services	1,400		1,400
Interest	<u>14</u>	<u></u>	<u>14</u>
Total Revenues	<u>1,414</u>	<u>1,485</u>	<u>2,899</u>
<b>Expenditures</b>			
Current			
General government	1,073		1,073
Public safety	<u></u>	<u>1,602</u>	<u>1,602</u>
Total Expenditures	<u>1,073</u>	<u>1,602</u>	<u>2,675</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	341	(117)	224
Fund Balance - April 1, 2003	<u>1,575</u>	<u>857</u>	<u>2,432</u>
Fund Balance - March 31, 2004	<u>\$ 1,916</u> =====	<u>\$ 740</u> =====	<u>\$ 2,656</u> =====

**JOHN I. JUKURI**  
**CERTIFIED PUBLIC ACCOUNTANT**  
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Fax (906) 337-2587

May 28, 2004

Board Members  
Houghton Township  
Eagle River, MI 49950

In planning and performing my audit of the financial statements of Houghton Township, Michigan for the year ended March 31, 2004, I considered its internal control in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control. I noted certain matters involving the internal control and its operation and other items that came to my attention in the normal conduct of my audit that are presented to assist in improving accounting procedures and controls.

Reportable Conditions/Noncompliance

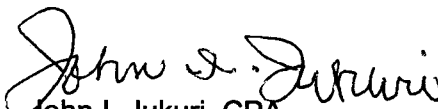
1. The size of the Township's accounting and administrative staff precludes certain internal controls that would be preferred if it were large enough to provide optimum segregation of duties. This dictates that the Township Board remain involved in the financial affairs of the Township to provide oversight and independent review functions. As part of this function and the strengthening of internal controls, I recommend the Board:
  - a) Outline in the board minutes the salary and wage rates;
  - b) Separate the process of water billing and collection of monies;
  - c) Document list of water fees collected by customer name, date and method of payment, and;
  - d) Sign board minutes.
2. Actual expenditures exceeded amounts authorized in the final amended budget in the Township's Liquor Fund by \$107. I recommend that the Board adopt appropriate policies and procedures to insure that the budgeting laws are followed properly.

Generally Accepted Accounting Principles

3. The Township has not recorded certain capital assets. I recommend that it be established in order to comply with generally accepted accounting principles.

This report is intended for the information and use of the Board membership and applicable Federal and State agencies. I will be please to discuss any of the comments with you at your convenience.

Sincerely,

  
John I. Jukuri, CPA